RATING REPORT

Almoiz Industries Limited (AMIL)

REPORT DATE:
5th November, 2018

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	*29th Oct'18*	

COMPANY INFORMATION	
Incorporated in 2005	External auditors: Rahman Sarfraz Rahim Iqbal Rafiq & Co. Chartered Accountants
Public (Unquoted) Limited Company	Chairman of the Board/CEO: Mr. Muhammad Shamim Khan
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Shamim Khan – 39.3%	
Mrs. Qaiser Shamim Khan – 23.4%	
Mr. Nauman Ahmed Khan –18.6%	
Mr. Adnan Ahmed Khan – 14.9%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016) ***http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf***

Almoiz Industries Limited

OVERVIEW OF THE INSTITUTION

Almoiz Industries Limited (AMIL) was incorporated as a public limited company in 2005 under the Companies Ordinance 1984. The company is primarily engaged in manufacturing sugar, generation and sale of power and production of steel billets and deform bars by utilizing self-generated electricity.

Profile of the Chairman/CEO

Mr. Mohammad Shamim Khan serves as the Chairman to the Board and also as the Chief Executive Officer (CEO) of the company. He has over 45 years of experience in managing large manufacturing concerns. He has served thrice as the President of Multan Chamber of Commerce.

Financial Snapshot

Total Equity: end-HY18:Rs. 6.0b; end-FY17: Rs. 6.2b; end-FY16: Rs. 5.6b

Assets: end-HY18: Rs 26.4b; end-FY17: Rs. 16.8b; end-FY16: Rs 11.9b

Profit/ (Loss) After Tax: HY18: Rs. (179m); FY17: Rs. 515m; FY16: Rs. 737m

RATING RATIONALE

The ratings assigned to Almoiz Industries Limited (AMIL) incorporate its significant position in a diversified industrial conglomerate, "Almoiz Group of Companies" having business interests in beverage, sugar, steel, power generation and textile. The ratings incorporate vertical integration with group owned beverage company catering to production and regional distribution of one of the leading international soft drink brands. In addition, the company's recent efforts towards creation of multifold revenue streams through establishment of steel melting and re-rolling plant has led to improved profitability coupled with assistance in withstanding the impact of prevalent slump in sugar prices. However, heightened business risk owing to overall subdued performance of sugar sector resulted in weakening of financial risk profile the company. In addition, the sizeable decline in margins adversely impacted funds flow from operations with respect to debt obligations.

Cyclicality in sugar sector resulted in downtrend in sugar prices: Sugar sector is cyclical and vulnerable to price fluctuations. Sugarcane support prices, the major input cost, are regulated by provincial governments. Over the last four years, sugarcane price in Punjab has increased slightly at a CAGR of 1.4%. On the contrary, retail sugar prices are determined by market dynamics with demand and supply forces. The price elasticity in end-product is not correlated with the raw material cost; hence in cycles of depressed sugar prices, the margins of entire sugar sector shrink. Bumper sugarcane crop in the last crushing season led to surplus availability of sugar, resulting in decline in average retail prices to Rs. 53.0/Kg during HY18 vis-à-vis Rs. 61.4/Kg in FY17. As a result of the aforementioned, all players in the sugar sector experienced compression in margins, suppressed profitability and hampered debt repayment capacity. In addition, the sugar sector is exposed to agro-climatic risks which has an impact on the cane output. Nevertheless, the government has recently allowed export of 1.0m tons of sugar, which will help in reducing surplus stock and is expected to have a positive connotation for the overall industry.

Seeking enhanced cushion against cyclicality in the sugar business: White crystalline sugar accounted for the largest chunk of revenue during FY17; however, owing to setup and initiation of commercial operations of the steel re-rolling plant in Aug'17, revenue from de-form bars represented around half of the total revenue mix in HY18. Going forward, the company plans to further diversify its revenue stream by increasing production capacity of its steel unit. Therefore, to cater to the underutilized capacity of re-rolling unit, the company plans to add another furnace with a capacity of 190 tons/day to the steel billet manufacturing unit. As a result, based on 235 days of production, the annual billet manufacturing capacity of the plant will be enhanced by 45,000 tons. Hence, AMIL would not have to purchase billets from the open market. Subsequently, the net impact on the bottom line of the company will be favorable since the input cost of indigenous production is lower than the current market purchase price.

Depressed sugar prices adversely impacted profitability in HY18: The sales revenue of the company on an annualized basis declined by over two-folds during the ongoing year mainly on account of decline in average selling price of sugar. The sugarcane procurement price was maintained at Rs. 180/40 Kg in Punjab and with AMIL's production units based in Punjab, coupled with slump in retail prices, the gross margins of the company declined to 4.5% (FY17: 9.2%) during HY18. Moreover, financial cost increased due to higher utilization of funding lines in the current period to meet higher working capital requirements. Despite gross sale of deform bars eported high at Rs. 2.2b, the company reported a net loss during HY18. Going forward, the performance of the company will be primarily dependent on the trend in sugar prices though sale of steel bars and electricity is expected to support profitability.

Weak liquidity profile due to limited profitability: In line with reduced profitability, Funds from

Operations (FFO) declined considerably during HY18. In line with decline in FFO coupled with higher debt levels, FFO to total debt plummeted. Further, stock in trade increased sizably on a timeline basis on account of recent production of sugar coupled with inability to sell the produce due to price compression. The trade payables also demonstrated upward trajectory by end-HY18 owing to increased advances received from customers against sale of sugar along with higher payments to be made to growers. The situation is likely to self-correct moderately given the sugar stock held is expected to be sold to customers against which payables are outstanding. In addition, concentration among top 10 customers remained on a higher side.

High leverage indicators in line with sizeable working capital requirement: The sizeable growth in debt levels during the ongoing year is cyclical in nature, mainly pertaining to higher short-term borrowings arranged primarily to finance stock inventory and to finance sugarcane procurement. Long-term debts mainly constituted borrowing to setup steel re-rolling unit. Given higher short-term borrowings carried on the balance sheet together with reduction of equity base on account of loss incurred during the ongoing year, gearing and leverage indicators have witnessed an increasing trend on a timeline basis.

Room for improvement in the corporate governance: Senior management team of the company comprises experienced resources having relevant experience in the industry. However, in terms of minuting of Board meetings, formulation of Board level committees and segregation of Chairman and CEO positions the corporate governance framework exhibits room for improvement.

Al Moiz Industries Limited — Appendix I

BALANCE SHEET *(amounts in PKR millions)*	Sep 30, 2016	Sep 30, 2017	Jun 30, 2018
Non-Current Assets	8,181	9,952	10,377
Stock-in-Trade	776	3,005	11,068
Loans and advances	976	1,055	901
Trade Debts	230	479	1,113
Taxes recoverable/adjustable	619	1,144	1,208
Other Assets	1,084	1,029	1,437
Cash & Bank Balances	22	132	270
Total Assets	11,888	16,796	26,373
Trade and Other Payables	545	1,475	4,368
Short Term Borrowings	1,319	3,249	10,309
Long-Term Borrowings *(Inc. current maturity)*	4,238	5,682	5,439
Other liabilities	141	218	214
Total Equity	5,645	6,172	6,043
INCOME STATEMENT	**Sep 30, 2016**	**Sep 30, 2017**	**Jun 30, 2018**
Net Sales	11,818	12,782	3,839
Gross Profit	1,399	1,180	171
Operating Profit	1,158	876	(21)
Profit After Tax	737	515	(179)
FFO	1,278	1,077	-
RATIO ANALYSIS	**Sep 30, 2016**	**Sep 30, 2017**	**Jun 30, 2018**
Gross Margin (%)	11.8	9.2	4.5
Net Working Capital	1,131	1,047	600
FFO to Long-Term Debt	0.30	0.20	-
FFO to Total Debt (%)	0.23	0.12	-
Debt Servicing Coverage Ratio (x)	2.15	1.20	-
ROAA (%)	6.5	3.6	-
ROAE (%)	14.1	8.7	-
Gearing (x)	0.98	1.45	2.61
Debt Leverage (x)	1.48	2.07	3.73

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	**Appendix III**
Name of Rated Entity	Al-Moiz Industries Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10/29/2018	A-	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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